Service Date: August 10, 2005

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of NORTHWESTERN	)	
ENERGY'S REQUEST for an	)	UTILITY DIVISION
Accounting Order to Recognize	)	
Pension Expense in Cost of Service	)	Docket No. D2005.8.116
Based upon an Average of the Next	)	
Five Year's Projected Funding	)	Order No. 6684

ACCOUNTING ORDER

1. Northwestern Energy currently recovers its pension costs on an as funded basis. When Docket No. D2000.8.113, the most recent rate filing, was filed, assets within the Employee Retirement Income Security Act (ERISA) qualified pension plan were at a level that no funding was required. As such, current rates include no ERISA qualified pension costs.

2. The funding situation for the pension plan has changed, and substantial funding is now required. Large contributions will be required to bring the plan back to an appropriate funding level. The Company intends to make these contributions over a five-year period.

3. Insurance premiums payable to the Pension Benefit Guarantee Corporation are based upon the level of current funding within the pension plan. By accelerating the catch-up payments to the plan, the Company can reduce the level of insurance payments that need to be included in its cost of service.

4. Assets within the pension plan are invested and earn a return until such time as they are needed to fund retiree benefits. This return is expected to exceed the costs of borrowing the funds to make an accelerated payment. As such, the total cash outlay that is ultimately reflected in cost of service should be reduced if an accelerated payment is made.

5. Pension costs are reflected in the Company's financial statements on the same basis as they are reflected in cost of service. Under the current accounting, if the Company were to make a large one-time payment to accelerate the funding and thereby, lower the PBGC variable rate premium payments, it would be required to recognize the expense in the current year. With ERISA qualified pension costs in current rates at zero, this would have a material negative impact on the Company's earnings.

6. To remove this disincentive, this Accounting Order authorizes the Company to change its regulatory accounting for pension costs and recognize as pension costs, an average of the funding to be made over a 5-year period. The difference between the first year funding and the 5-year average will be carried as a regulatory asset that will reverse in years two through five when the average exceeds payments.

7. This Accounting Order only addresses the timing of recognition for pension costs. NWE still has the full burden of proof to demonstrate that the level of pension costs are properly included in the revenue requirement determination in subsequent rate proceedings.

8. Nothing in this Accounting Order shall be considered precedent for the treatment of pension costs, except as specifically stated herein, in any future proceedings,

or interpreted to limit the Commission's authority in making the determination of which pension costs should be included in rates.

9. Approval of this Accounting Order is for accounting purposes only. This Order is not to be construed as, nor is it in any way, a directive as to the proper accounting treatment for pension costs, or an approval of the actual numbers involved, the accounting method used, or the assumptions underlying those numbers. Most importantly, this Order does not imply or direct in any fashion that costs associated with pension costs will be at any time reflected in rates.

Conclusion of Law

1. Northwestern Energy is a public utility furnishing electric and natural gas service to consumers in the State of Montana, subject to the supervision, regulation and control of the Commission. Title 69, Chapter 3, MCA § 69-3-102, MCA.

Order

1. The Commission directs Northwestern Energy to change its accounting for pension costs to recognize a five-year average funding costs in its cost of service. This change is effective for calendar years 2005-2009. Based on current estimates, the five-year average pension funding costs are expected to be $18,852,000.

2. This Order is effective on issuance.

DONE IN OPEN SESSION at Helena, Montana, on this 9th day of August, 2005, by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GREG JERGESON, Commissioner

BRAD MOLNAR, Vice Chairman

DOUG MOOD, Commissioner

ROBERT H. RANEY, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Connie Jones
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.